



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

August 27, 2008

Mr. Ed Kendig, Air Pollution Control Officer
Monterey Bay Unified Air Pollution Control District
24580 Silver Cloud Court
Monterey, CA 93940-6536

Dear Mr. Kendig:

Final Report—Fiscal Review of the Monterey Bay Unified Air Pollution Control District's Carl Moyer Program, Lower-Emission School Bus Program, and AB 923 Funds.

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its fiscal review of the Monterey Bay Unified Air Pollution Control District's (District) Carl Moyer Program, Lower Emission School Bus Program, and AB 923 funds for July 1, 2003 through December 31, 2007.

The enclosed report is for your information and use. The District's response to the report findings and our evaluation of the response are incorporated into this final report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of your staff and management during our review. If you have any questions, please contact Mary Kelly, Manager, or Cheryl Lyon, Supervisor, at (916) 322-2985

Sincerely,

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Jack Kitowski, Branch Chief, Mobile Source Control Division, California Air Resources Board
Ms. Heather Arias, Manager, Incentives Oversight Section, California Air Resources Board
Ms. Laura Zaremba, Air Pollution Specialist, Incentives Oversight Section, California Air Resources Board
Mr. Tim Hartigan, Air Pollution Specialist, Incentives Oversight Section, California Air Resources Board
Mr. David Fairchild, Program Coordinator, Monterey Bay Unified Air Pollution Control District
Ms. Esta Martin, Administrative Services Manager, Monterey Bay Unified Air Pollution Control District

Monterey Bay Unified Air Pollution Control District
Carl Moyer Program
Lower-Emission School Bus Program
Assembly Bill 923

Prepared By:
Office of State Audits and Evaluations
Department of Finance

The California Air Resources Board (Board) contracted with the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal review of the Monterey Bay Unified Air Pollution Control District's (District) implementation of the Carl Moyer Program, the Lower-Emission School Bus Program, and the use of AB 923 funds for July 1, 2003 through December 31, 2007. Concurrent to this review, the Board also conducted a program audit of the District's Carl Moyer Program, Lower-Emission School Bus Program, and AB 923 funds. Because of this, Finance did not verify the programmatic validity of the projects reviewed.

Background

The District's mission is to achieve clean air and to protect public health and the environment. The District implements multiple clean-air programs supported by federal, state, and local funds. This review encompasses three programs funded by the state: the Carl Moyer Program (CMP), the Lower-Emission School Bus Program (LESBP) Retrofit and Replacement, and Assembly Bill 923 (AB 923) funds.

The objective of the CMP is to contribute to cleaner air by funding the incremental cost of replacing or retrofitting older engines with cleaner-than-required engines and equipment. Public or private entities that operate eligible engines or equipment within the District's jurisdiction participate by applying to the District for a grant. Examples of eligible engines and equipment include heavy-duty vehicles, marine applications, locomotives, agricultural pumps, forklifts, and auxiliary power units.

The primary purpose of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this through a Replacement Program and a Retrofit Program. The Replacement Program funds the replacement of older high-polluting school buses with new buses. The Retrofit Program funds the installation of Board-approved pollution control devices on diesel school bus engines.

AB 923 (Chapter 707, Statutes of 2004) provided two additional sources of funding for the CMP. By adjusting fees assessed on purchasers of new tires, the legislation resulted in approximately \$25 million for clean air programs in fiscal year 2005-06. AB 923 also provided air district governing boards with the authority to approve a \$2 increase in motor vehicle registration fees. This increase provides up to \$55 million annually to local air districts for four incentive programs: (1) the CMP, (2) the LESBP's Replacement Program, (3) light-duty accelerated vehicle retirement or repair programs, and (4) the Agricultural Assistance Program.

Scope and Methodology

The Board engaged Finance to review the District's fiscal administration of the CMP, the LESBP, AB 923 funds, and the District's fiscal compliance with applicable laws, regulations, guidelines, and contract requirements. District processes for receiving, recording, and disbursing program funds; allocating administrative costs and earned interest; and meeting match funding requirements were analyzed. Schedules were created from the District's records to summarize amounts received and disbursed for the programs and funds from July 1, 2003 through December 31, 2007. Finally, site visits were conducted to interview program participants and review pertinent documents.

This review was not conducted in accordance with *Generally Accepted Government Auditing Standards*, and did not include extensive testing of the District's internal control or the programmatic appropriateness of expenditures. Had additional procedures been performed, other matters might have come to our attention that would have been reported.

Analyses and Summary Schedules

Carl Moyer Program:

The following schedule illustrates CMP funds awarded and expended for program years 6, 7, 8, and 9. The year 8 award includes project and multi-district funding. Payments of \$137,126 (34 percent) of the year 6 award and \$13,721 (4 percent) of the year 7 award were made after the respective grant periods (Observation 1). Based on CMP funding guidelines, the District had until June 30, 2008 to expend the remaining year 8 project funds and until June 30, 2009 to expend the remaining year 9 project funds.

CMP Year	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ¹	Expenditures After Grant Period	Balance as of December 31, 2007
6	2003-04	405,321	266,668	138,653	137,126	1,527
7	2004-05	427,243	413,522	13,721	13,721	0
8	2005-06	1,209,456	541,855	667,601	0	667,601
8 Multi - District	2005-06	232,270	139,362	92,908	0	92,908
9 ²	2006-07	1,059,788	0	1,059,788	0	1,059,788

(1) Year 6 grant period ended June 30, 2006; Year 7 grant period ended June 30, 2007; Year 8 grant period ended June 30, 2008; Year 9 grant period ends June 30, 2009.

(2) The District had received only \$206,643 of the Year 9 CMP award as of December 31, 2007.

Carl Moyer Program Administration:

The following schedule illustrates the CMP administration funds awarded and expended for program years 7, 8, and 9. No administration funds were awarded for years 1 through 6. The District has fully expended the years 7 and 8 administration grant funds awarded and has expended \$16,294 of the year 9 grant funds awarded. While the administration expenses appropriately relate to CMP activities, they are not directly supported by timesheets as required by CMP guidelines (Observation 2).

CMP Year	Fiscal Year	Administration Funds Awarded	Expenditures Within Grant Period	Remaining Administration Award
7	2004-05	9,890	9,890	0
8	2005-06	27,997	27,997	0
9 ¹	2006-07	116,643	16,294	100,349

(1) The District had received only \$63,321 of the Year 9 CMP administration award as of December 31, 2007.

Carl Moyer Program Match Requirements:

The following schedule illustrates the CMP match requirements and expenditures for program years 6 through 9. The District fully met match requirements for years 6 and 7 by completing eligible projects funded with local-control funds. As of December 31, 2007, the District had remaining match requirements of \$182,843 in year 8, and \$147,851 in year 9.

CMP Year	Fiscal Year	Required District Match	Match Expenditures Within Grant Period	Remaining Match Requirement
6	2003-04	202,661	202,661	0
7	2004-05	194,555	194,555	0
8	2005-06	189,207	6,364	182,843
9	2006-07	147,851	0	147,851

Carl Moyer Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of CMP funds during the review period. The District had a beginning balance of earned interest from prior CMP funding cycles. The District's interest calculation methodology is appropriate and allocations are materially correct and properly recorded. The District has appropriately used \$7,438 of earned interest to fund CMP eligible projects.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2003-04	40,713	3,033	0	43,746
2004-05	43,746	6,138	7,438	42,446
2005-06	42,446	16,530	0	58,976
2006-07	58,976	21,439	0	80,415
July 1 – December 31, 2007	80,415	16,946	0	97,361

Lower-Emission School Bus Program:

The following schedule illustrates LESBP Retrofit Program funds awarded and expended during the review period. The District did not receive LESBP Replacement Program funding during the audit period. The District also did not receive LESBP Retrofit Program funding during fiscal year 2003-04. The LESBP Program was not funded state-wide during fiscal year's 2004-05 or 2006-07. The District was awarded \$266,000 in LESBP Retrofit funds in fiscal year 2005-06; however, the District returned \$155,790 of this award and as of December 31, 2007 had not expended any of the remaining \$110,210. Therefore, as of December 31, 2007, the District had a \$110,210 remaining balance relating to the award it received in fiscal year 2005-06.

Fiscal Year	Program	Award Amount	Expenditures as of December 31, 2007	Balance as of December 31, 2007
2005-06	Retrofit	110,210	0	110,210

Lower-Emission School Bus Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of LESBP funds during the review period. The District had a beginning balance of earned interest from prior LESBP funding cycles. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. The District has not expended any of the LESBP earned interest funds.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2003-04	42,449	6,380	0	48,829
2004-05	48,829	7,585	0	56,414
2005-06	56,414	15,622	0	72,036
2006-07	72,036	24,582	0	96,618
July 1 – December 31, 2007	96,618	3,421	0	100,039

Assembly Bill 923:

The following schedule illustrates the AB 923 funds received and expended from receipts beginning July 2005 (from fee collections beginning in May 2005) through December 31, 2007. The District has expended \$130,845 on eligible projects, and the administration charges of \$88,607 (3 percent of collections) are appropriate as allowed by statute.

2005-06 Receipts	2006-07 Receipts	July 1 – December 31, 2007 Receipts	Total Receipts	Expenditures Within Grant Period	Administration Charges	Balance as of December 31, 2007
1,152,107	1,190,136	620,241	2,962,484	130,845	88,607	2,743,032

Assembly Bill 923 Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of AB 923 funds during the review period. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. The District has not expended any of the AB 923 earned interest funds.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2005-06	0	24,383	0	24,383
2006-07	24,383	89,977	0	114,360
July 1 – December 31, 2007	114,360	32,803	0	147,163

Review of the District's compliance with the CMP, LESBP, and AB 923 funds fiscal requirements resulted in the following observations:

Carl Moyer Program

Observation 1:

The District expended \$137,126 (34 percent) of the CMP year 6 award and \$13,721 (4 percent) of the CMP year 7 award after the respective grant periods. Further, \$1,527 of the CMP year 6 award remains unspent as of December 31, 2007. Per Health and Safety Code Section 44287(k), "Any funds reserved for a district pursuant to this section are available to the district for a period of not more than two years from the time of reservation. Funds not expended by June 30 of the second calendar year following the date of the reservation shall revert back to the state board as of that June 30."

Recommendation:

The District should institute policies and procedures to ensure projects are completed and funds expended within the respective grant periods. Final determination as to the treatment of the unexpended funds and funds expended outside the grant period will be made by the Board.

Observation 2:

The District's methodology to allocate CMP administration charges is not directly supported by timesheets as required by CMP guidelines.

Recommendation:

The District's allocation of administration charges should be based on actual hours worked on the CMP and supported by hours recorded on the employee's timesheets.

All Programs

Observation 3:

The District has no established process to conduct reconciliations between program and accounting records. This lack of checks and balances raises the risk of error or fraud by accounting or program staff, inaccurate annual or final reports, and program year funding that may not be expended timely.

Recommendation:

The District should institute policies and procedures to reconcile program and accounting records on a regular basis. The reconciliations should be documented and retained in accordance with the District's record retention policy.

Observation 4:

The District failed to follow the standard grant payment instructions included in the contracts between the District and program participants. This resulted in a program participant receiving a single party check totaling \$72,473, instead of a two party check including the vendor's name as required by the contract. During our applicant site visit, we requested proof of payment to verify the purchase of an engine. However, the program participant was only able to adequately support \$17,529 of the funds received. As such, \$54,944 of the expenditures funded by CMP could not be validated. The issuing of two party checks adds a fiscal control to the payment process to help ensure the CMP funds are used appropriately.

Recommendation:

The District should review and adhere to the contract requirements included in each contract with program participants.

The District's assistance and cooperation with our review was appreciated. If you have any questions regarding this report, please contact Mary Kelly, Manager, or Cheryl Lyon, Supervisor, at (916) 322-2985.

This report is a matter of public record and its distribution is not limited.

STAFF:

Mary Kelly
Manager

Cheryl Lyon
Supervisor

Daniel Jenkinson
Alexandria Tu

MONTEREY BAY UNIFIED AIR POLLUTION
CONTROL DISTRICT'S RESPONSE



MONTEREY BAY

Unified Air Pollution Control District
serving Monterey, San Benito, and Santa Cruz counties

AIR POLLUTION CONTROL OFFICER
Douglas Quetin

24580 Silver Cloud Court • Monterey, California 93940 • 831/647-9411 • FAX 831/647-8501

DISTRICT BOARD MEMBERS

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George Worthy
South Monterey
County Cities

Mary Kelly or Cheryl Lyon
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall Suite 801
Sacramento, CA 95814

August 4, 2008

RE: Fiscal Review of the Monterey Bay Unified Air Pollution Control District's Carl Moyer Program, Lower Emission School Bus Program and AB923 Funds.

Dear Mss. Kelly or Lyon:

This letter is to transmit our responses to the subject DOF fiscal review report dated July 22, 2008. If you have any questions, please contact David Fairchild (831) 647-9418 x 234.

Sincerely,

Ed Kendig
Interim Air Pollution Control Officer

Enclosed: MBUAPCD responses of 8/4/08

cc: Esta Martin, MBUAPCD
Dave Fairchild, "
Nathan Pierce, "
Laura Zarembo, ARB

Responses to DOF Fiscal Review of MBUAPCD Carl Moyer Program (CMP), the Lower-Emission School Bus Program and District use of AB 923 Funds.

The following comments were prepared on August 4, 2008 by Esta Martin, Dave Fairchild and Nathan Pierce of MBUAPCD staff, regarding the report's findings on the fiscal review of the District's CMP.

Observation 1: The DOF report states that \$137,126 (33.8%) of CMP Year 6 funds were expended after the expenditure deadline of June 30, 2006. These funds could not be expended by that deadline, since the Award and Authorization was only twenty-four days before, on June 6, 2006. This District received a late redistribution of Year 6 funds, and could not possibly have them expended in 24 days. Projects funded by the Year 6 Redistribution grant award and authorization were obligated and expended by Year 7 deadlines, not Year 6.

District staff will update its CMP Policies and Procedures to ensure timely implementation and expenditure of Moyer grants. Changes will include procedures to call Grantees with outstanding obligations two months before their applicable expenditure deadlines.

Observation 2: The District's methodology to allocate direct time charges is based on an annual percentage of time spent in each program. It is currently reviewed annually by the section supervisor and adjusted for the subsequent budget year. The District's payroll is done by an outside source and cannot be direct charged to this level of detail at this time. The District will begin reviewing the actual time versus estimated percentage on a quarterly basis which will even out the actual vs. estimated percentages better.

Observation 3: The District issues monthly expenditure reports to all budget managers and all grant personnel. This includes a summary report of cumulative expenditures by individual grant as well as the current budgeted amount for each grant. Staff are to review the reports monthly and report back any errors or discrepancies. Grant staff are now receiving copies of all grant checks paid as soon as the checks go out and are refreshing their understanding of the accounting reports. The accounting staff will ask for a "sign off" on the monthly grant summary reports and will retain them according to the grant document retention guidelines.

Observation 4: The District incorrectly paid the grantee (Grant M-135) with a single-party check for \$72,473 without adequate expenditure documentation. This occurred because the contract had been originally executed as single-party check contract, but later amended to a two-party check payment contract. Unfortunately, payment was approved and made in accordance with the original contract. However, the statement that \$54,944 of the expenditures "could not be validated" is not quite correct.

Grantee provided an invoice from Helmut's Marine Service Inc. (\$68,700) which he claimed to have paid, plus a cashed check to Peninsula Diesel for eligible project costs in the amount of \$8,747, which together represented more than the grant amount. Although

the Grantee could not document his payment to Helmut's Marine Service, Inc., the vendor attested to full payment of his invoice, via a cashier's check given to him by the grantee for \$54,537.17 and with his acceptance of a nearly new Volvo Marine engine and transmission in lieu of monetary payment. The Volvo had only been used for 93 hours. Helmut's Marine then sold that engine for \$14,000.00. (See attached documentation #7 and #8 concerning sale of the Volvo and full payment by grantee of the project engine invoice.)

Additional Comment: On page 6 of the Draft DOF Report, the administration allowance for AB 923 funds is stated as 3 percent (3%) of collections. It has been the District's understanding that this is actually five percent (5%), the same as for AB2766 funds.

Attachments (Includes documentation previously provided to DOF):

1. Year 6 Redistribution Grant Award and Authorization, 6/6/06.
2. Year 6 and 7 project list, DOFAuditResponse1.xls 7/28/08
3. M-135 Payment approval 7/3/07
4. Helmut's Marine Invoice for M-135 project, 6/4/07
5. Peninsula Diesel Invoice for M-135 project, 6/4/07
6. Cashed check No. 6086 of 7/5/07 from Robert Aliotti to Peninsula Diesel
7. Helmut's Marine bill of sale for Volvo Penta, 12/4/07
8. Payment in full affidavit from Helmut's Marine for M-135

EVALUATION OF RESPONSE

The District's response to our draft report has been incorporated herein. The attachments referenced were omitted in the interest of brevity. We acknowledge the District's timely reply and willingness to implement corrective actions for the identified observations. Upon review of the District's response, we provide the following comments:

Observation 1:

The District acknowledged that it did not expend \$137,126 of its year 6 CMP award by June 30, 2006, the end of the year 6 grant period.

Our original recommendation remains unchanged.

Observation 2:

The District indicated that it "will begin reviewing the actual time versus estimated percentage on a quarterly basis which will even out the actual vs. estimated percentages better."

We commend the District on its attempt to comply with our recommendation; however, the remediation approach taken does not put the District in compliance with the requirements established in the CMP guidelines. Our observation and recommendation remains unchanged.

Observation 3:

The District indicated that "grant staff are now receiving copies of all grant checks paid as soon as the checks go out and are refreshing their understanding of the accounting reports. The accounting staff will ask for a 'sign off' on the monthly grant summary reports and will retain them according to the grant document retention guidelines."

We commend the District on its efforts to establish a process to conduct formal documented reconciliations between program and accounting records and to retain those reconciliations in accordance with CMP guidelines.

Observation 4:

The District acknowledged non-compliance with contract terms by issuing a single party check to the sub-applicant.

We appreciate the District's submission of additional supporting documentation. However, the information submitted does not alleviate this observation since proof of payment to the vendor remains unverified. We remind the District that explicitly following fiscal guidelines with respect to transactions involving CMP funds is imperative to ensure funds are expended for the purposes intended. We will forward the applicant and vendor information to the California Board of Equalization and California Franchise Tax Board to review their business practices and ensure proper remittance of California income tax and sales and use tax.